

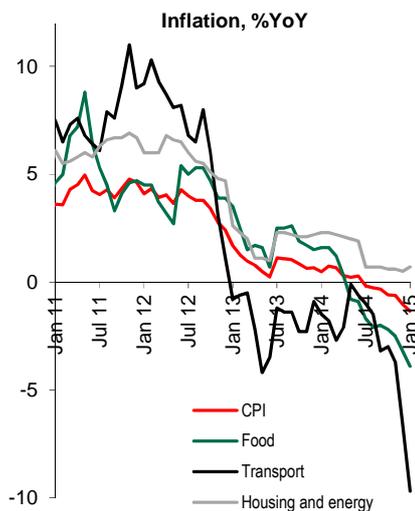
INSTANT COMMENT

13 February 2015

Lower GDP growth, lower CPI, lower C/A balance

Inflation rate fell to -1.3%YoY in January, mainly due to prices of food and fuels. The flash release may be revised next month after the stats office recalculates weights in CPI basket, however we do not expect a sizeable correction. According to our tentative estimate, core inflation excluding food and energy increased slightly to 0.6%YoY. Deflation may even deepen in February and it seems that the CPI growth will not turn positive until the end of 3Q15. Loan growth accelerated in January, but it was mainly the effect of weaker zloty. We estimate that after eliminating this effect the loan growth remained stable.

Current account deficit in December was bigger than expected, mainly due to negative surprise in exports. Still, we expect that economic recovery in the euro zone will trigger Polish exports' recovery in the coming months. In fact, there are signs of export recovery to biggest euro zone countries already since October last year. GDP growth in 4Q14 decelerated to 3%YoY, which was roughly consistent with expectations. Overall, the last data releases imply that interest rate cut in March is still very likely, in our view.



Fuel and food prices drag CPI lower

Inflation rate fell in January to -1.3%YoY, slightly deeper than the market expected, but less than our forecast (-1.4%YoY).

In line with our expectations, the annual CPI growth was dragged lower mostly by food and fuel prices. Food prices climbed a bit versus December (0.7%MoM), but this seasonal increase was less considerable than one year ago (1.5%MoM), so annual pace of growth of food and non-alcoholic beverages slid to -3.9%YoY (the lowest level since comparable data are available, i.e. mid-90s). Transport prices fell by 4.4%MoM and by 9.7%YoY (also the deepest recorded fall). This was primarily due to cheaper fuels (retails prices by 7%MoM, according to our estimates), but also thanks to lower prices for transport services. We observe a reversal of downward tendency of fuel prices since mid-February, but average fuel price may still be lower than in January (by c3%MoM), pushing inflation even lower.

12M CPI inflation dropped less than we expected due to a rise in prices of health services (by 0.6%MoM) and probably higher prices in other categories. However, we cannot yet say for sure, as the CSO release was shown in a shortened version (as usually for preliminary January's data). Let us remind that this release was flash and the CSO will show new data in one month's time, based on reweighed CPI basket encompassing information on household spending in 2014. Final data on January's CPI will be released together with February's reading. However, we do not expect the correction to be considerable.

We expect deflation to deepen in February (to -1.5% or even slightly lower), but to rebound gradually in the upcoming months. Still, CPI is unlikely to become positive earlier than at the end of Q3. Such inflation prospect (below the previous inflation projection) is supporting interest rate cut by the MPC at the upcoming meeting (new projection to be published in March).

Exports below consensus

December current account data disappointed as exports fell below consensus (€12bn vs. €12.2bn expected). Imports reached €12.6bn and there was no surprise here. Despite some disappointment, exports still grows at a decent pace (6.6%YoY) and the NBP has even revised the November's figure upward. We expect that improving economic conditions in the euro zone will have a positive impact on the Polish exports in the coming months. At the

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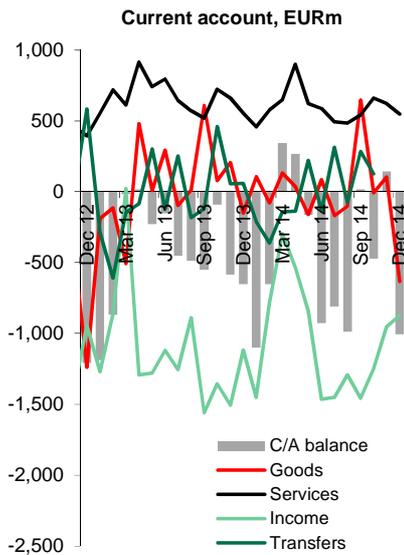
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same time, high growth of imports (10.7%YoY) reflects the strength of internal demand. Although flash GDP data for the whole year showed that the domestic demand weakened slightly in 4Q14 vs. 3Q14, imports data seem to show that there is no significant risk of any noticeable problems with domestic demand at the 2014/2015 turn.

The current account balance saw a €1bn deficit that resulted from trade balance deficit at €633mn, deficit in primary income balance at €873mn, deficit in secondary income balance at €48mn and surplus in services at €549mn. We estimate, that C/A deficit reached 1.3% of GDP at the end of 2014 (just like in 2013) and was fully covered by the inflow of foreign direct investments.

Loans growth distorted by the FX effect

M3 money supply growth accelerated to 8.5%YoY in January, slightly below consensus, while the December data was revised down (to 8.2% from 8.5%). Data indicate an acceleration in households' loans (to 7.6% from 5.5% in December) but one should remember that to a large extent this was due to the FX effect (as the zloty depreciated to above 4,0 per CHF). We initially estimate, that after the FX effect adjustment, households' loans growth stabilized slightly above 5%. Corporate loans increased 8%YoY in January (but no change in annual growth after the FX adjustment).

GDP decelerated, but only marginally

According to flash estimate, GDP growth slowed to 3.0%YoY in 4Q14 from 3.3%YoY in 3Q14. The result was marginally below our estimate (3.1%) calculated from earlier release of total 2014 growth data, but it does not change our general assessment of situation and it is still a positive result.

We think 1Q15 may see a further moderate slowdown of growth, but next quarters are likely to bring some pick up. Optimistic outlook is strengthened by more and more apparent signals of revival in the euro zone (German 4Q GDP growth well above forecasts!) and data indicating a gradual acceleration of Polish exports to the core countries of Western Europe.

GDP growth and its components (%YoY)

	2012	2013	2014	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
GDP	1.8	1.7	3.3	0.7	2.3	3.0	3.4	3.5	3.3	3.0
Domestic demand	-0.4	0.2	4.6	-1.6	1.0	1.8	3.4	5.6	4.9	4.6**
Total consumption	0.7	1.3	3.0	0.6	1.7	2.4	2.3	3.1	3.3	3.1**
Private consumption	1.0	1.1	3.0	0.4	1.2	2.4	2.9	3.0	3.2	3.0**
Public consumption	0.2	2.1	2.7**	1.5	3.5	2.2	0.1	3.7	3.5	3.5**
Gross accumulation	-4.3	-3.7	11.6	-11.0	-1.9	0.4	10.5	18.1	12.0	8.5**
Fixed investment	-1.5	0.9	9.4	-1.8	1.3	2.7	11.2	8.7	9.9	8.8**
Net export *	2.2	1.5	-1.3**	2.4	1.3	1.2	0.0	-1.9	-1.6	-1.5**

* contribution to GDP growth (percentage points)

** BZ WBK forecasts based on the whole-year data